

Making Aid to Afghanistan Effective

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Before the terrorist attacks of September 11, 2001, and all that followed, Afghans and the handful of internationals working on Afghanistan could hardly have imagined being fortunate enough to confront today's problems. The Bonn Agreement of December 2001 providing for the "reestablishment of permanent government institutions" in Afghanistan was fully completed with the adoption of a constitution in January 2004, the election of President Hamid Karzai in October 2004, and the formation of the National Assembly in December 2005.¹

On January 31 to February 1, 2006, President Karzai, United Nations (UN) Secretary-General Kofi Annan, and Prime Minister Tony Blair presided over a conference in London of about 60 states and international organizations that issued the Afghanistan Compact, setting forth both the international community's commitment to Afghanistan and Afghanistan's commitment to state building and reform over the next five years. The Compact supports the Afghan National Development Strategy (ANDS), an interim version of which (I-ANDS) the Afghan government presented at the conference.² The Compact provides a strategy for building an effective, accountable state in Afghanistan, with targets for improvements in security, governance, and development, including measures for reducing the narcotics economy and promoting regional cooperation.³ The Compact also prescribes ways for the Afghan government and donors to make aid more effective and establishes a mechanism to monitor adherence to the timelines and benchmarks.

During his visit to Afghanistan, India, and Pakistan in March 1-5, 2006, President George Bush praised Afghan successes, telling President Karzai, "You are inspiring others, and the inspiration will cause others to demand their freedom." He did so the day after the administration's own intelligence chiefs reported that the anti-government insurgency in Afghanistan is growing and presents a greater threat "than at any point

¹ Agreement on Provisional Arrangements in Afghanistan Pending the Re-Establishment of Permanent Government Institutions (Bonn Agreement), 2001. Available at <http://www.auswaertigesamt.de/www/en/infoservice/download/pdf/friedenspolitik/afghanistan/agreement.pdf>.

² The Afghanistan Compact and the I-ANDS are available at www.and.gov.af.

³ For this conceptual framework for peace building, see Barnett R. Rubin, "Constructing Sovereignty for Security," *Survival* 47, No. 4 (Winter 2005), pp. 93–106.

since late 2001."⁴ Some Afghan officials say the world thus far has put Afghanistan on life support, rather than investing in a cure. Tally up the following conditions:

- An ever more deadly insurgency with sanctuaries in neighboring Pakistan, where leaders of al-Qaeda and the Taliban have found refuge;
- A corrupt and ineffective administration without resources and a potentially dysfunctional parliament;
- Levels of poverty, hunger, ill-health, illiteracy, and gender inequality that put Afghanistan near the bottom of every global ranking;
- Levels of aid that have only recently expanded above a fraction of that accorded to other post-conflict countries;
- An economy and administration heavily influenced by drug traffickers;
- Massive arms stocks despite the demobilization of many militias;
- A potential denial of Islamic legitimacy by a clergy that feels marginalized;
- Ethnic tensions exacerbated by competition for resources and power;
- Interference by neighboring states, all of which oppose a long term U.S. presence in the region;
- Well-trained and well-equipped security forces that the government may not be able to pay when aid declines in a few years;
- Constitutional requirements to hold more national elections (at least six per decade) than the government may be able to afford or conduct;
- An exchange rate inflated by aid and drug money that subsidizes cheap imports and hinders economic growth; and
- Future generations of unemployed, frustrated graduates and dropouts from the rapidly expanding school system.

Making aid more effective, as agreed by the US and other donors in London, is key to addressing these challenges.

⁴ [Walter Pincus](#), "Growing Threat Seen In Afghan Insurgency: DIA Chief Cites Surging Violence in Homeland," *Washington Post*, March 1, 2006; p. A08

DOMESTIC RESOURCES OF AFGHANISTAN

Basic indicators of human welfare place Afghans among a handful of the world's most hungry, destitute, illiterate, and short-lived people. The country ranks approximately 173 out of 178 countries in the basic index of human development, effectively putting it in a tie for last place with a few African countries.⁵ Afghan women face the highest rates of illiteracy and the lowest standards of health in the world. Afghanistan has the youngest population in the world (an estimated 57 percent under eighteen years old) with few employment prospects in the offing.⁶

The livelihoods of the people of this impoverished, devastated country are more dependent on illegal narcotics than any other country in the world. According to estimates by the UN and IMF, the total export value of opiates produced in Afghanistan in 2005–2006 equaled about 38 percent of nondrug GDP, down from 47 percent the previous year due to growth of the nondrug economy. Much of the trafficking profits do not enter the Afghan economy, but even if only a third of trafficking income stayed in the country, the direct contribution to the domestic economy would amount to 15 percent of the total, with more attributable to the multiplier effect of drug-financed spending. The UN estimates that in recent years nearly 80 percent of the income from narcotics went not to farmers, but to traffickers and heroin processors, some of whose profits corrupt the government and support armed groups.⁷ The distribution of the proceeds of narcotics trafficking, not elections, largely determines who wields power in much of Afghanistan.

Afghanistan has one of the weakest governments in the world. The International Monetary Fund (IMF) estimates that the government revenue will total 5.4 percent of nondrug GDP in 2005–2006, less than any country with data. Furthermore the

⁵ Along with Somalia, Afghanistan is one of two countries in the world unable to produce accurate enough data to be ranked in UN Development Programme's (UNDP) annual Human Development Report. Using available data, however, Afghanistan's *National Human Development Report 2004* estimated that Afghanistan would have ranked 173 out of 178, barely ahead of the African states of Chad, Mali, Burkina Faso, Sierra Leone, and Niger. UNDP, *Afghanistan: National Human Development Report 2004*, p. 18. See http://hdr.undp.org/docs/reports/national/AFG_Afghanistan/afghanistan_2004_en.pdf.

⁶ For population statistics on Afghanistan see the United Nations Children's Fund's country information on Afghanistan. Available at http://www.unicef.org/infobycountry/afghanistan_7982.html.

⁷ UN Office on Drugs and Crime and Government of Afghanistan Counter Narcotics Directorate, *Afghanistan: Opium Survey 2004*, pp. 75–76. See http://www.unodc.org/pdf/afg/afghanistan_opium_survey_2004.pdf.

administration has difficulty disbursing the funds it has: the ten poorest provinces receive the smallest budgetary allocations, leading to nonexistent government presence and rampant security problems.⁸

The Afghanistan Compact requires the government to raise domestic revenue to over 8 percent of GDP by fiscal year 2011 and to be able to cover 58 percent of the recurrent budget with its own resources, compared to 28 percent in fiscal year 2005. Nonetheless, escalating costs of security and civil service reform will make these targets difficult to achieve.

The Coalition and Afghan government should support continuing fiscal reform, including ISAF and Coalition military deployments in support of control of borders (for revenue collection) and state banks (for expenditure). The government should rationalize the procedures for business taxation, abolish nuisance taxes, and find other ways to tax the expenditures of the international presence, as it has done through rent taxes. For instance, the government could tax non-work-related imports.

Aid programs should assist the ministry of finance in establishing electronic tax payment, revenue tracking, and expenditure systems, compatible with the Treasury system already in place. Developing and funding of programs, including those sponsored by PRTs, through the Afghan budgetary process, rather than through independent donor mechanisms, is essential to developing a fiscally sustainable state.

ADMINISTRATION AND SERVICE PROVISION

The government has started reforms at the national level, but many ministries are still nonfunctional or corrupt. The provincial and district administrations, the face of government for most Afghans, are largely controlled by illicit or violent powerholders.

Afghanistan's weak administration has few if any effective controls over corruption, which has undermined support for the government. Some systems have been instituted to prevent the most important types of corruption, notably a system requiring transparent public bidding for procurement. Increasingly, however, ministries are

⁸ Ashraf Ghani, Clare Lockhart, Baqer Massoud, and Nargis Nehan, "Public Finance in Afghanistan: The Budget as the Instrument of State-Building and Policymaking," in James Boyce (ed.), *Peace and the Public Purse: Building State Capacity after Violent Conflict* (New York: Center on International Cooperation, forthcoming).

sidestepping this procedure and signing sole-source contracts, many of which are then approved by the President in the interest of not delaying important projects. The Compact obliges the government to fight corruption without saying how.

The Afghan president should tell his cabinet that he will no longer sign sole-source contracts without exceptional circumstances and that all ministers found proffering such contracts will be sacked. International donors should invest in building the capacity of the Afghan government to draft proposals and process contracts so that transparent procedures do not lead to intolerable delays.

Among the measures taken by the Coalition and NATO to strengthen the administration has been the establishment of Provincial Reconstruction Teams (PRTs). The PRT terms of reference now state that they will “assist the Islamic Republic of Afghanistan to extend its authority, to facilitate the development of a stable and secure environment in the identified area of operations, and enable SSR and reconstruction efforts.”⁹ In response to Afghan concerns that PRTs were building projects that the government had no budget to operate, the Coalition now reviews projects to align them with Afghan government priorities. But the Coalition’s development activities are still not integrated into the coordination procedures of the civilian aid donors, nor are military officers the best development partners for local administration.

PRTs should be reconfigured to support governance and development more effectively, by including more political officers and development specialists from NATO member countries, a possible role for the EU. The development funds disbursed by PRTs should be subject to the same criteria for effectiveness as other assistance; those funds would be more effective if disbursements were accountable to provincial administration and elected councils, as through a trust fund.

⁹ Islamic Government of Afghanistan, “Terms of Reference for the Combined Force Command and ISAF PRTs in Afghanistan,” January 27, 2005.

FINANCING PRO-POOR GROWTH

All efforts to stabilize Afghanistan will fail if the licit economy does not expand fast enough to provide employment, incomes, and investment that more than balance the loss of incomes from opiates and provide a fiscal basis for expanding public services.

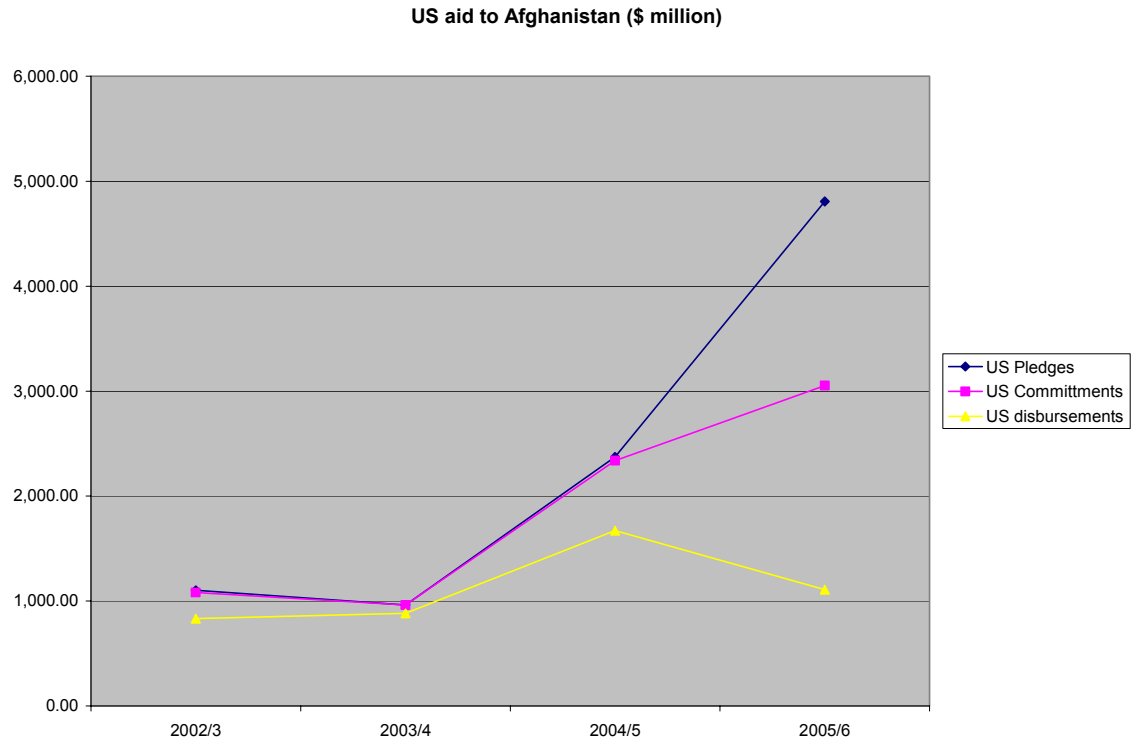
In 2004 the Afghan government estimated it would cost \$27.6 billion to achieve stabilization goals over seven years with disbursements over twelve years starting in 2004–2005; the I-ANDS tentatively revised this estimate upwards. Initially, the resources devoted to Afghanistan were modest. According to data collected by the RAND Corporation, during 2002–2003, Afghanistan was far below all Balkan operations, East Timor, and Iraq, and even below Namibia and Haiti. After this slow start, especially by the United States, funding for reconstruction is increasing toward the rate needed to meet the target of \$27.6 billion. The cost of delivery of assistance, however, has been higher than expected, and much of the increase in aid has gone to the security sector, which has cost far more than projected.

U.S. pledges of assistance rose dramatically in 2004–2005, as Presidential Special Envoy and Ambassador Zalmay Khalilzad presided over a program called “Accelerate Success,” intended to build support for President Karzai during his election campaign. **Figure 1** also shows, however, that the United States was not able to match disbursements to its pledges and commitments.¹⁰ Instead, the pressure for politically motivated quick results led to waste and failure to deliver on Afghans’ expectations.¹¹ Other donors have experienced similar problems, but they are particularly severe for the United States.¹²

¹⁰ A pledge is a promise of an amount; a commitment is a signed contract for a specific use of funds. Commitments lead to disbursements, which are deposits in to the accounts of trust funds or implementing agencies. Disbursed funds are turned into expenditures as projects are implemented, which can take years in some cases. Donors report on disbursement, which constitutes expenditure by the donor government, but not on final expenditure on development, which is of greatest interest to the aid recipient.

¹¹ See Carlotta Gall and Somini Sengupta, “Afghan Electorate’s Message: The Provinces Need Public Works and Restoration of Order,” *New York Times*, September 20, 2005.

¹² Data from the Ministry of Finance for aid through the end of calendar 2005 show that the United States had disbursed 36 percent of commitments for that year, compared to 58 percent for other donors.



Source: Afghanistan Ministry of Finance

The Afghanistan Compact includes an annex on aid effectiveness. The Afghan government commits itself to transparency and accountability, to raising more domestic resources, and to improving its capacity to manage expenditure and implement programs. In return, the donors agree to: allocate their assistance according to ANDS priorities; provide “multiyear funding commitments or indications of multiyear support”; increase untied aid channeled through the government budget; build Afghan capacity; and report on aid in a way that enables the Afghan government to integrate aid into its national budget and reports on its use to the National Assembly.¹³

More than 75 percent of all aid to Afghanistan funds projects directly implemented or contracted by donors. This mode of delivery, while initially inevitable, is ultimately self-defeating. If prolonged, it undermines, not builds, the state. Enabling the state to provide services directly promotes legitimacy and responsibility; integrating aid projects into the budgetary process promotes sustainability. A government that cannot

¹³ The World Bank-administered Afghanistan Reconstruction Trust Fund supports the government’s recurrent and development expenditures. Trust funds managed by the UNDP provide support for SSR and counternarcotics.

report to its parliament about public expenditure can hardly be called democratic, no matter how many elections it holds.

Three of the largest donors, however—the United States, Japan, and Germany—insisted on weakening these provisions. U.S. officials claim that the U.S. government’s fiduciary responsibility to taxpayers makes it difficult to channel money through the Afghan government’s budget. Like other donors, the United States cites the prevalence of corruption and lack of capacity in Afghanistan, which are valid concerns, though they do not prevent the United Kingdom from channeling aid through the budget. The argument of fiduciary responsibility, however, collapses under the weight of evidence of what the U.S. government actually does with much of taxpayers’ money in Afghanistan; it disburses it to U.S.-based contractors. These contractors spend a significant (and unreported) part of the funds setting up office. In at least one case their services were of such poor quality that the Afghan ministry they were supposed to help expelled them. Security regulations sometimes prevent U.S. contractors from implementing projects in the field and impose significant additional costs. Both the fiduciary responsibility to the U.S. taxpayer and the policy goals of the U.S. government would often be accomplished better by direct budgetary support to the Afghan government, combined with programs for capacity building.

International donors, and the United States in particular, should give aid in accord with the priorities of the ANDS. They should overcome legal and political obstacles to funding through the government budget by setting specific criteria for doing so. Congress should not undermine these efforts by insisting on U.S. contracting or earmarking.

REGIONAL DIMENSIONS OF RECONSTRUCTION

Afghanistan’s development requires cooperation of this landlocked country with its neighbors, especially Pakistan and Iran, which provide outlets to the sea.¹⁴ Without confidence in regional security arrangements, neighboring countries may resist the economic and infrastructural integration that is indispensable for Afghanistan’s future.

¹⁴ See Barnett R. Rubin with Andrea Armstrong, “Regional Issues in the Reconstruction of Afghanistan,” *World Policy Journal* 20 (Spring 2003), 1: pp. 37–48, and S. Frederick Starr, “A Partnership for Central Asia,” *Foreign Affairs* (July/August 2005).

The United States and other donors should support regional economic cooperation, including in infrastructure, trade and transit, water use, energy, migration and manpower, and development of border regions, by establishing dedicated funding frameworks for regional economic cooperation in this region.

The United States and its allies, perhaps through NATO, should initiate high-level discussions to insulate Afghan economic development from conflict with Iran or concerns over the Coalition military presence.

ANNEX II

IMPROVING THE EFFECTIVENESS OF AID TO AFGHANISTAN

The international community has made a significant investment in the future of a democratic state of Afghanistan since December 2001. This Compact is an affirmation of that commitment. The Afghan Government and the international community are further committed to improving the effectiveness of the aid being provided to Afghanistan in accordance with the *Paris Declaration on Aid Effectiveness* (2005), recognising the special needs of Afghanistan and their implications for donor support.

Consistent with the Paris Declaration and the principles of cooperation of this Compact, the Government and the international community providing assistance to Afghanistan agree that the principles for improving the effectiveness of aid to Afghanistan under this Compact are:

1. Leadership of the Afghan Government in setting its development priorities and strategies and, within them, the support needs of the country and the coordination of donor assistance;
2. Transparency and accountability on the part of both the Government and the donors of the international assistance being provided to Afghanistan.

Under these principles and towards the goal of improving the effectiveness of aid to Afghanistan, **the Government will:**

- Provide a prioritised and detailed Afghanistan National Development Strategy (ANDS) with indicators for monitoring results, including those for Afghanistan's Millennium Development Goals (MDGs);

- Improve its abilities to generate domestic revenues through, *inter alia*, customs duties and taxes; and to achieve cost recovery from public utilities and transportation;
- Agree with donors, international financial institutions and United Nations agencies on the benchmarks for aid channelled through the Government's core budget and for the utilisation of such aid; and monitor performance against those benchmarks; and
- Provide regular reporting on the use of donor assistance and performance against the benchmarks of this compact to the National Assembly, the donor community through the Afghanistan Development Forum and the public at large.

The Donors will:

- Provide assistance within the framework of the Afghanistan National Development Strategy; programmes and projects will be coordinated with Government in order to focus on priorities, eliminate duplication and rationalise donor activities to maximise cost-effectiveness;
- Increasingly provide more predictable and multiyear funding commitments or indications of multiyear support to Afghanistan to enable the Government to plan better the implementation of its National Development Strategy and provide untied aid whenever possible;
- Increase the proportion of donor assistance channelled directly through the core budget, as agreed bilaterally between the Government and each donor, as well as through other more predictable core budget funding modalities in which the Afghan Government participates, such as the Afghanistan Reconstruction Trust Fund (ARTF), the Law and Order Trust Fund for Afghanistan (LOTFA) and the Counter-Narcotics Trust Fund (CNTF);

- Provide assistance for the development of public expenditure management systems that are essential for improving transparency and accountability in the utilisation of donor resources and countering corruption;
- Recognise that, because of the need to build Afghan capacity, donor assistance provided through the external budget will be designed in such a manner as to build this capacity in the Government as well as the private sector and non-profit sector;
- Ensure that development policies, including salary policies, strengthen national institutions that are sustainable in the medium to long term for delivery of programmes by the Government;
- For aid not channelled through the core budget, endeavour to:
 - Harmonise the delivery of technical assistance in line with Government needs to focus on priority areas and reduce duplication and transaction costs;
 - Reduce the external management and overhead costs of projects by promoting the Afghan private sector in their management and delivery;
 - Increasingly use Afghan national implementation partners and equally qualified local and expatriate Afghans;
 - Increase procurement within Afghanistan of supplies for civilian and military activities; and
 - Use Afghan materials in the implementation of projects, in particular for infrastructure;
 - Provide timely, transparent and comprehensive information on foreign aid flows, including levels of pledges, commitments and disbursements in a format that will enable the Afghan Government to plan its own activities and present comprehensive budget reports to the National Assembly; this covers the nature and amount of assistance being provided to Afghanistan through the core and external budgets; and For external budget assistance, also report

to the Government on: the utilisation of funds; its efficiency, quality and effectiveness; and the results achieved;

- Within the principles of international competitive bidding, promote the participation in the bidding process of the Afghan private sector and South-South cooperation in order to overcome capacity constraints and to lower costs of delivery.

These mutual commitments are intended to ensure that the donor assistance being provided to Afghanistan is used efficiently and effectively, that there is increased transparency and accountability, and that both Afghans and the taxpayers in donor countries are receiving value for money.